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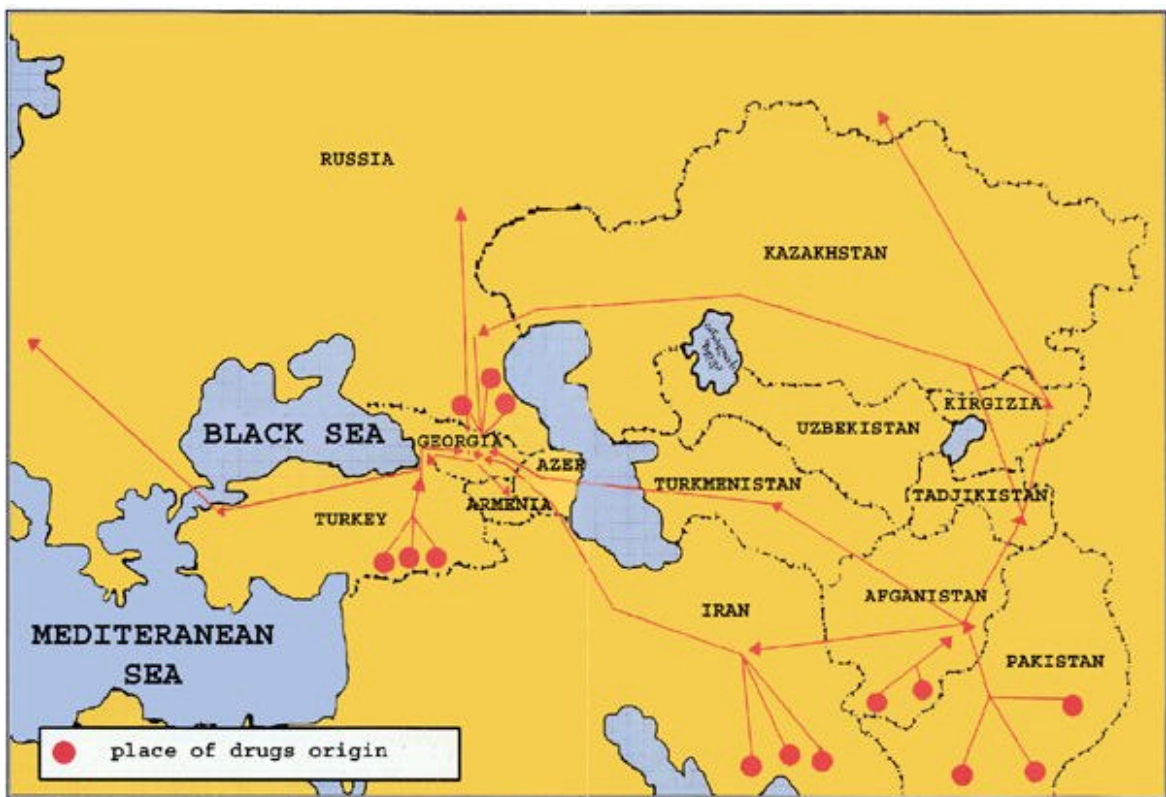
Problems of Smuggling and Corruption in the Customs System

Outline

- **Drugs**
- **Customs terminal at Tbilisi Airport**
- **Oil products**
- **Permits and licenses, extremely bureaucratic barriers**
- **Problems of customs registration, corruption mechanisms**
- **International cooperation of customs services**
- **Personnel policy**
- **Conclusion**

Drugs

Traditional roots of the distribution of drugs of Asian origin



The picture of drug prices in local black markets is as follows:

- 1 gram of heroine - USD 100-350
- 1 gram of opium - USD 20-25
- 1 ampoule of morphine - USD 5-7
- 5 gram of marihuana - USD 7-9
- 1 pill of subotex - USD 120

In France subotex is distributed in quantities of 8 pill packages without restrictions. The price of one package is 8 euro. Taking into account the price of 1 package on the Georgian black market, equivalent to $8 \times 120 = \text{USD } 960$, one can easily become convinced of the motivation for

committing this kind of crime.

Customs Terminal of Tbilisi Airport

Tbilisi International Airport represents a high risk customs terminal from the standpoint of drug control. Unfortunately, the underdeveloped customs infrastructure, a lack of information service, and other reasons create favorable conditions for drug traffickers to move easily through the terminal.

The customs terminal must not only check luggage and cargo, but also all edifices in the territory of the airport and every person passing through the territory, including the employees of the airport or other institutions having a direct relation to aircrafts, passengers or luggage.

Unfortunately, at present, the customs terminal is unable to establish control over all exits and entrances on the territory of the airport and persons or vehicles passing through the territory.

Crew members are not checked appropriately in customs terminals. Moreover, they use the service gate, where customs officers are not present. This creates a strong likelihood that expensive goods are regularly brought onto the territory of Georgia by crew members, passing beyond the customs terminal.

- One of the main problems is the definition of customs control zones in international ports or airports.
- Due to the lack of an adequate legal basis, there is no ability to check parcels and mail packages. As a rule, sent and received parcels are kept in the storage rooms of post offices that in some cases are remote from customs terminals by tens of kilometers. Hence, the customs officer can check only accompanying documents, but not the parcels themselves.
- It is recommended that the customs officer control the special food blocks, where food is placed in special containers for serving on board. The customs officer should attend the process of packing food containers and seal them with a customs stamp. The unsealing of food containers shall be done on board by other customs officers.
- Video surveillance cameras will be installed on the perimeter of the airport, also near the exits and entrances, technical structures and warehouses, which will enable the customs office to control the entire territory of the airport from a single room.
- It would be reasonable for the Customs Department to sign a memorandum of understanding with the airport and aviation companies. Particularly, if on the basis of such memorandum, the employees of the airport and aviation companies provide the customs office with a list of booked tickets in advance, the customs office would be able to look through the passengers list and in case of necessity take preliminary measures.

Smuggling of Oil Products

Ways of smuggling:

- False documents and custom identification data (false quantity, false price, false octane number, manipulation of quality);
- Fictitious transit, re-export, export and other customs regimes;
- Import of oil products related to petrol and other kind of oil products, with the intent to mix with high quality oil;
- Import of oil products from non-controlled territories passing beyond the customs terminal;
- Founding oil terminals in non-control territories, where the smuggled oil is imported and registered with the documents of legally imported oil.

Currently there are 130,646 registered vehicle in the country (including 92,478 vehicles in good technical condition). Hence, by our calculation approximately 540,000 tons of petrol is consumed by the country annually (or 45,000 tons monthly), and 300,000 tons of diesel fuel is consumed annually (25,000 tons monthly).

According to official data of the Customs Department the picture of imported oil products is as follows:

<u>2003</u>	<u>2004</u>
Petrol – 262,000 tons	Petrol – 321,959 tons
Diesel – 97,700 tons	Diesel – 174,812 tons

Hence, the quantity of smuggled oil products is:

<u>2003</u>	<u>2004</u>
Petrol – 278,800 tons	Petrol – 218,041 tons
51% of total consumption	40.3% of total consumption
Diesel – 202,300 tons	Diesel – 125,188 tons
67.4% of total consumption	41.7% of total consumption

The income to the state budget received from the import of oil products in 2004:

Petrol – 125,938,332 Lari (average 10,494,861 Lari monthly)
Diesel – 26,155,860 Lari (average 2,179,655 Lari monthly)
Total – 152,094,192 Lari

Taking into account the estimated data on consumption of oil products in the country, it can be assumed that in 2004 the state budget experienced the following losses:

- >From petrol – 50,753,148 Lari,
- >From Diesel – 10,906,994 Lari

Total: 61,660,142 Lari, which equals 40% of the total budget income that would have been received from oil import.

Despite the fact that the rate of increase of the quantity of declared oil was maintained in 2005, the

share of smuggled oil is still large.

Ways of smuggling of oil products:

- Manipulation through the customs regimes;
 - Smuggling stipulated by undefended borders:
 - Lagodekhi (70 km of perimeter);
 - The Red Bridge, the Desert, Jandara (100 km);
 - Samegrelo (Abkhazia);
 - Iranian trailers, buses coming from Azerbaijan;
 - Pipeline.
- A normative document must be prepared that would establish a strict limit on the capacity of oil containers contained on vehicles. This would enable customs officers to impose restrictions on carrying additional full containers.
 - Strict control shall be established on the parking spots of Iranian and Turkish trailers;
 - Control of public transportation shall be strengthened as well, since public transportation is involved in the distribution of smuggled oil products;
 - Control must be strengthened on the entire infrastructure of the oil pipeline, as well as the operation of oil refineries.

Permissions and Licenses, Extremely Bureaucratic Barriers

An extremely complicated list of procedures exists to obtain licenses for the administering of such simple customs procedures such as: processing of goods under customs control, temporary moving of goods out of customs territory; permissions for re-export, re-import, liquidation rules, preferential duties, and implementation of other procedures.

Documents necessary to obtain permission are many and include: an official application to Customs Department, statement from Taxation Department on settlement of payments, Form No. 52, excerpt from the entrepreneurs register, a statement of undertaken obligations, agreement, and invoice. In the best cases, permission from the Customs Department is issued in 3 days after the date of submission of documents, and the license will be issued in 5-10 days.

Request for advance permissions and declarations (card of excised goods (10-day term), preliminary customs declaration) on excised goods is quite unjustifiable. This considerably complicates the ultimate customs clearance procedure.

Very often, for some reason, the quantity of imported goods is less than the quantity of goods indicated in the declaration. It happens so that the customs office will not take into account such circumstances and actually registers non-existing goods.

Personnel Policy

The difficult situation existing in the customs system is largely due to a lack of professionalism and frequent changes in personnel. During the past two years the chairman was replaced 4 times, and throughout the 13 years of the existence of an independent customs department the chairman was replaced 14 times. This fact indicates an irresponsible attitude of the government towards the customs system.

The frequent turnover of personnel in leading positions is accompanied by the recently adopted practice of bringing one's own team, so that, in violation of the labor code, random people occupy positions instead of professionals, whose only virtue is personal connections and good relations. In repeating cases the criteria for evaluating old employees is not professionalism, honesty or other merits.

Hence, it can be justifiably said that the Department does not have a proper system of personnel selection.

The situation described above is unchanging throughout the history of Customs Department. The resultant situation causes anxiety, panic and fear for the personnel who may lose their job, and accordingly, an unhealthy work environment. All these points are reflected in the functioning of the entire customs system.

International Customs Cooperation

The Customs Department of the Ministry of Finances of Georgia has been a member of the World Customs Organization since 1993.

RILO - (REGIONAL INTELLIGENCE LIAISON OFFICE) represents the regional unit of the law enforcement system, which operates world wide.

Membership in the above organizations provides a good opportunity for the customs system of Georgia to make good progress in the fight against smuggling and other specific spheres (trainings, financial assistance, recommendations, etc.), though unfortunately the Customs Department of Georgia does not show any interest to take advantage of this truly unique opportunity.

Moreover, Georgia has not been paid its membership fee for three years (about 16,000 Euro annually), for which its active membership status has been terminated, deprived of voting privileges and cannot participate in a variety of interesting projects. Accordingly, cooperation with the RILO office has almost ceased completely. It follows of course, there is no access to the unique online international network CEN .

The Customs Department should necessarily restore the structural unit responsible for international relations so as to establish and strengthen relations with the following influential international organizations:

- WCO-World Customs Organization;
- ICPO/INTERPOL, OPCW-The Organization for the Prohibition of Chemical Weapons;
- CITES-Convention on International Trade in Endangered Species of Wild Fauna and Flora;
- IRU - International Road Transport Union;
- IAEA – International Atomic Agency;
- OLAF – European Anti-Fraud Office;
- SECI – Regional Center For Combating Trans-border Crime

Relations with the customs systems of neighboring countries is also of vital importance for the Georgian customs system. This should become the basis for the exchange of urgent information in the shortest period of time, joint planning and the implementation of controlled deliveries or other operations, and harmonious and smooth functioning of customs terminals in particular segments of the border, joint control, “mirror comparison”, etc.

Final Part, Recommendations

In order to improve the existing ineffective situation it is necessary to consider international practice and recommendations of foreign experts:

- A special commission should be created on the governmental level to develop short and long term plans for the organization and strategic development of a customs system. The plans should be approved by the president;
- A new customs code should be developed;
- Other legislative and normative acts should be improved;
- A draft law on the customs system should be prepared that would determine the status of customs bodies and their officers, their rights, responsibilities and social guarantees.

Recommendations: Personnel Policy

- The transformation of the Personnel Department from a unit having the role of statistical bureau into an advisory subdivision serving the Chairman of the Department;
- Creation of transparent system of appraisal of customs officers. Also, the creation of a system of promotion, motivation, reward and salary increases for employees;
- The development and approval of a strategy for training in cooperation with personnel having adequate qualifications.

Recommendations: Management

- **new structure of the Department shall be created for the strategic development of the customs system;**
- **Annual reports of the operation of the customs system should be prepared. Deficiencies**

within the system as well as positive tendencies shall be determined on the basis of the reports;

- The personnel department should prepare a managerial improvement program with the anticipation of promotion system;
- A guidance handbook on the values, country of origin, and other issues should be developed for distribution within the system, in order that all customs officers carry out procedures consistently;
- A memorandum of understanding should be signed with the Taxation Department, Financial Police, Ministry of Public Order, Department of Border Defense, administrative boards of sea ports, airports, railways and other agencies;
- The creation of an effective external communication system to gain support of public and Government should be implemented;
- The creation of a so-called “hot line”, by which citizens can report illegal actions of customs officers or violations in customs procedures;
- The updating/renewal of the website and improvement of the activities of the office of public relations should be implemented;
- Preparation of necessary changes in the corresponding legislation should take place, which will enable customs officers to implement a tighter control over the customs border and the entire perimeter of the customs territory;
- The introduction of an international practice of risk management and random selection should be implemented;
- The introduction of a practice of auditing after customs registration should be enacted;
- Working out of the Tir Carnet manual and organization of trainings for customs officers should be started;
- The preparation of an instructional document for the application of risk management and random selection in transit control should be carried out;
- The concept of the protection of intellectual property in the customs sphere should be developed;
- The creation of an interdepartmental database of Customs, Taxation and Railway Departments should be developed;
- The existing provisions should be revised and the creation of more perfect and strict rules of licensing customs brokers and carriers should be developed with the purpose of a full enactment of the mentioned services.

Recommendations: Infrastructure

- The creation of a plan for the development of the infrastructure of the customs system;
- The creation of secure and comfortable work environment for customs officers;
- Attracting investments for the development of infrastructure according to the plan;
- Working out a plan of construction and modernization of customs terminals with the anticipation of possible funding resources and priorities;
- The arrangement of dead-end sidings on the sights of customs control to ensure control of goods transported by railway;
- Strengthening of control in transit operations; goods and transport means shall be focused on; documents shall be considered as additional mechanisms of control, not the subject of control;
- All customs terminals having relations with transit operations shall be equipped with crane portals, checking pits, bridge scales, etc.

Recommendations: Oil Products

- **Cooperation between the leaders of the customs system and oil pipeline shall be deepened in order that the Georgia section of the oil pipeline as well as the mini refineries located along the pipeline be controlled under joint efforts;**
- **Gathering spots of Turkish and Iranian trailers, as well as parking sights of mini-buses, where smuggled petrol is sold, shall be placed under the control;**
- **A normative act should be adopted that would establish the upper limit for the quantity and capacity of oil containers in order to avoid the problem of extra containers.**

Recommendations: International Ports and Airports

- **Control of international crews should be increased in terms of checking their personal luggage;**
- **Delivery of any other kind should be controlled;**
- **Control of retailers located in customs free zones should be increased;**

Recommendations: Intelligence Service

- **It is necessary to restore the information and intelligence structural unit within the customs system that will be responsible for the exchange of information with other law-enforcement agencies and the customs services of neighboring countries;**
- **An intelligence subdivision should be authorized by the Customs Department to take part in controlled deliveries or the other joint operations;**
- **The intelligence subdivision should become the unit for analyzing of risk factors of narcotic drugs and other prohibited substances, as well as smuggling routes and hiding places, or other specific issues;**
- **Risk factors should be evaluated on a permanent basis, and the evaluation should be regularly provided to the customs check points, to financial police and other interested agencies;**
- **The intelligence subdivision should be under the direct subordination of the Chairman of the Department.**

Recommendations: International Cooperation in Customs Sphere

- **The full payment of overdue membership fees to the world customs organization;**
- **An active cooperation with the committees of the world customs organization and RILO-Moscow Office ;**
- **The establishment of intense cooperation with ICPO/INTERPOL, CITES, IRU , IAEA ,OLAF, and SECI;**

- **Intensify cooperation with the customs administrations of neighboring countries;**
- **Procedures of joining the Kyoto and Hairobi Convention.**

Problems in Customs Registration and Corrupt Practices

- **Inaccurately completed internal transit forms;**
- **Inaccuracies in customs and transport declarations;**
- **Minor inaccuracies in accompanying transportation documents;**
- **Minor inaccuracies in the certificates of the country of origin of transported goods;**
- **Insufficient number of employees in customs terminals;**

Similar deficiencies and deliberately created barriers create ground for corrupt deals.

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